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Office of the Comptroller
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Issue Date: Immediately
Date Last Revised: June 20, 2007

**Component Unit Guidance –
FY 2008**

Executive Summary

This guide supersedes the existing Component Unit Guidance previously issued in 2005. It is meant to complement the Government Accounting Standards Board (GASB) Statement 34 implementation guide issued in 2002. This guide incorporates implementation of previous GASB Statements and recently issued statements 48 and 49, and to reissue policies on required documentation with regard to the Commonwealth's issuance of its Comprehensive Annual Financial Report (CAFR). A decision tree is attached as an appendix to this document, which allows you to assess whether or not a related entity to your organization is a Component Unit.

The audit must be performed in accordance with Governmental Accounting Standards.

In addition, a questionnaire about your entity's GASB Statement 45 readiness and implementation is attached. Please return it by August 4, 2008.

Considerations

The Office of the Comptroller prepares a CAFR annually. All entities in receipt of Federal Funds in excess of \$500,000 are required to have a Single Audit in accordance with OMB Circular A-133. If you are required to have the A-133 audit, please inform us. We need to ensure the audit and the timing of the related report issuance are consistent with the Commonwealth's timelines.

Reporting standards require that all Primary Component Unit (e.g. existing component units or Authorities) financial statements be included as part of the Component Unit discrete presentation for the Commonwealth. **Due to the tight timetable of completing the CAFR and the large number of Primary Component Units, we are requesting that each separately audited Entity read and complete the financial statement package.**

**GASB 39
Reporting
Commonwealth**

↑
Primary
Component
Units

↑
Ancillary
Component
Unit
Organizations

Statement 39 extends the requirements of component unit reporting, potentially integrating other related organizations to a primary component unit or the Commonwealth itself. The Office of the State Comptroller performed a data analysis and at this point, we know of no other organization that may rise to the level of a component unit for the Commonwealth. However, other related entities may be part of your primary component unit. Should your entity have these new organizations, to facilitate this reporting, these entities' audited financial statements are recommended to be submitted on a timely basis to your Authority, (typically one month prior to October 15, the due date for the Authority's completed audited financial statements to be received at the Office of the Comptroller). Completed audits are defined as audits in final form, **represented to the Office of the Comptroller as ready for acceptance by or accepted by the Governing Body of the Authority**. Various reporting changes and footnote disclosures are necessary for proper reporting.

FY 2008 GUIDANCE

Reporting Requirements

It is our hope that you will communicate with us if there have been changes in your organization that will affect your financial reporting. If you foresee any problem meeting the **October 15th** deadline please call B J Trivedi at (617) 973-2663.

This year the Commonwealth is scheduled to issue its audited CAFR no later than December 15th.

- **Submit a copy of draft financial statements (ready for your board's review) to the Office of the Comptroller by October 1st.**
- **Final audited financial statements must be submitted to the Office of the Comptroller by the due date of October 15th.**

The financial statements of the Authority must be received by the Office of the Comptroller in a form ready for acceptance by the Governing Body i.e., audited and have received an unqualified audit opinion. **The Commonwealth's financial statements are at risk of being qualified by our auditors if you do not meet the above requirements.**

Reporting requirements require entities that receive federal funding must be audited in accordance with generally accepted governmental auditing standards.

Independence Letter

The Primary Component Unit's audited financial statements must be transmitted to the Office of the Comptroller with a copy of the *Independence Letter and the original going to KPMG*. It is necessary for your auditors to confirm to our auditors, (currently KPMG) their independence with regard to your financial statements. **This requirement is *mandatory*** and any lack of response may result in a qualification of the Commonwealth's CAFR audit opinion. As the component units of the primary component unit are also audited, these component units must also transmit their audits to the Primary Component Unit's auditor containing a similar letter. The letter that the primary component unit needs to transmit to the Commonwealth's auditors and the component unit(s) need(s) to transmit to the primary component unit is below. In the case of a letter from the Primary Component Unit's auditor to the Commonwealth the addressee would change if addressed from the component unit of the Authority (to the Authority's Auditor:)

(Firm Letterhead)

Ms. Diana Galatian
KPMG, LLP
99 High Street
Boston, MA 02110-2371

Date

Ladies and Gentlemen:

In connection with our audit of the Comprehensive Annual Financial Report of the Commonwealth of Massachusetts which includes component units and other institutions one of which is (insert name of component unit) for the period beginning July 1, 2007 and ending June 30, 2008, we would like to obtain from you written confirmation of your independence with respect to (insert name of component unit) in relation to your audit of the financial statements of (insert name of component unit) for the fiscal year ended June 30, 2008.

Please acknowledge in your response to us that:

1. You are familiar with the independence requirements of the American Institute of Certified Public Accountants (AICPA), and
2. As far as (insert name of component unit), (insert name of component unit)s, and any other related parties are concerned, you have been, for the period covered by the financial statements under report and thereafter to date, in fact independent as contemplated by such AICPA requirements.

In addition, please also acknowledge that:

1. You are aware that we will rely on your opinion on (insert name of component unit)'s financial statements for the period beginning July 1, 2007 and ending June 30, 2008 in expressing our opinion on the Comprehensive Annual Financial Report of the Commonwealth of Massachusetts.
2. You are familiar with accounting principles generally accepted in the United States of America, the standards of generally accepted auditing standards promulgated by the AICPA and the standards of the Government Accountability Office (United States) and have conducted your audit and reported in accordance therewith.
4. You have not provided any nonaudit services, as defined in the Government Auditing Standards, to (insert name of component unit), or if you have provided nonaudit services to (insert name of component unit), you must acknowledge this representation as follows: "I/We have provided the following nonaudit services to (insert name of component unit) and have attached to this letter a copy of the engagement letter (or equivalent document) for each such service. (Insert a listing that provides a brief description of each nonaudit service). I/We believe none of these services creates an impairment to our independence as defined in the Government Auditing Standards." Please enclose a copy of the engagement letter (or equivalent document) for each of the non-audit services listed in your acknowledgement.

Please send your written confirmation letter to KPMG LLP.

Very truly yours,

(signed)

Relevant GASB Standards

The financial statements must be prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). All relevant standards must be followed. The following standards became applicable in FY2008.

Statement	Description	Implementation FY
45	<i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions</i>	2008
48	<i>Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues</i>	2008
49	<i>Accounting and Financial Reporting for Pollution Remediation Obligations</i>	2009
50	<i>Pension Disclosures</i>	2008

The following is a summary of the new standards being implemented in FY2008:

Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*

See next section for detail Questions and Answers pertaining to this statement.

Statement No. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. This Statement does not apply to a government's pledge of its "full faith and credit" as security for its own debt or the debt of a component unit. The requirements of this Statement apply to the financial statements of all state and local government.

See next section for additional guidance pertaining to this statement.

Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations*

GASB49 is effective for 2009. However, information is needed as of 7/1/08 not 6/30/09 that is why the following is included

The Statement addresses accounting and financial reporting standards for pollution (including contamination) and remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution

remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

Most pollution remediation outlay do not qualify for capitalization and should be accrued as a liability (subject to modified accrual provisions in governmental funds) and expense when a range of expected outlays is reasonably estimable or as an expenditure upon receipt of goods and services. If a government cannot reasonably estimate the range of all components of the liability, it should recognize the liability as the range of each component (legal services, site investigation, and required postremediation monitoring) becomes reasonably estimate. In government-wide and proprietary fund financial statements, the liability should be recorded at the current value of the costs the government expects to incur to perform the work.

Statement No. 50 - *Pension Disclosures*

This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

This Statement amends Statements 25 and 27 to require defined benefit pension plans and sole and agent employers present the following information related to note disclosures or RSI:

- Notes to financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to RSI.
- **Only if the aggregate actuarial cost method is used by your component unit to determine the annual required contribution of the employer (ARC)**, notes to financial statements should disclose the funded status of the plan, and a schedule of funding progress should be presented as RSI, using the entry age actuarial cost method. Plans and employers also should disclose that the purpose of doing so is to provide information that serves as a surrogate for the funded status and funding progress of the plan.
- Notes to financial statements should include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in RSI.
- If applicable, notes to financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.
- If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.

Statement 50 amends Statement 25 to require defined benefit pension plans and defined contribution plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. It also amends Statement 27 to require cost-sharing employers to include, in the note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the

contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the cost-sharing plan is financed on a pay-as-you-go basis. The Statement also amends Statement 27 to require that, if a cost-sharing plan does not issue a publicly available stand-alone plan financial report prepared in accordance with the requirements of Statement 25, as amended, and the plan is not included in the financial report of another entity, each employer in that plan should present as RSI the schedules of funding progress and employer contributions for the plan (and notes to these schedules). Each employer also should disclose that the information presented relates to the cost-sharing plan as a whole, of which the employer is one participating employer, and should provide information helpful for understanding the scale of the information presented relative to the employer.

Standardized Financial Reporting Items

For Authorities receiving federal funding:

Reporting requirements require entities that receive federal funding need to be audited in accordance with generally accepted governmental auditing standards. The audit opinion of these entities should read, "audited in accordance with Governmental Auditing Standards issued by the Comptroller General of the United States of America."

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the Primary Component Unit is typically limited to discussion of the Primary Component Unit's activities. Only a very significant or unusual transaction involving the Component Unit needs to flow up to the MD&A of the Primary Component Unit. For all years, the relationship and the nature of transactions between the Commonwealth and the Authority should also be discussed.

Audit Opinion

The opinion for all years should reference the work of the auditor of the Authority and the level of reliance on that work. The **Component Unit's opinion must reference *Government Auditing Standards*** if the entity is required to have an audit performed in accordance with those standards (e.g. is required to have a Single Audit performed of their financial statements).

In addition, your entity needs to have an unqualified audit opinion. The Commonwealth's financial statements are at risk of a qualification of our auditor's opinion if you do not meet the above requirements.

Footnote Disclosures from Component Units

Statement 34 and Statement 14 require that an overview of the Primary Component Unit should distinguish between the Primary Component Unit and the Component Unit(s). For each major component unit, the nature and amount of significant transactions with the Primary Component Unit should be disclosed, along with any other transactions between Component Units.

Disclosures for the Component Units should be limited to those that are essential to the fair presentation of the Primary Component Unit's basic financial statements. This needs to be done on a case-by-case basis. For example, for a component unit that is a 501(c)3 foundation, cash, investments, receivables, fixed assets, payables and debt, if applicable,

would be disclosed. The focus on disclosure needs to be on information from only *major* Component Units. Finally, a reference needs to be made in the Primary Component Unit's footnotes as to how to obtain the Component Unit's audited financial statements in describing the Component Unit relationship.

Other Financial Reporting Guidance

<p>The financial statements should <u>include</u> all of activities, which is to say it should include all activity as measured and reported in conformity with GAAP, including any component unit(s) of the Authority.</p>

The Office of the Comptroller will inform Entities as soon as possible if any exposure drafts or statements are released that will effect their operations.

GASB STATEMENT 45 ON OPEB ACCOUNTING BY GOVERNMENTS A FEW BASIC QUESTIONS AND ANSWERS

1. Why was Statement 45 on OPEB accounting by governments necessary?

Statement 45 was issued to provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees. *Postemployment healthcare benefits*, the most common form of OPEB, are a very significant financial commitment for many governments.

2. How was OPEB accounting and financial reporting done prior to Statement 45?

Prior to Statement 45, governments typically followed a “pay-as-you-go” accounting approach in which the cost of benefits is not reported until after employees retire. However, this approach is not comprehensive—only revealing a limited amount of data and failing to account for costs and obligations incurred as governments receive employee services each year for which they have promised future benefit payments in exchange.

3. What does Statement 45 accomplish?

- When they implement Statement 45, many governments will report, for the first time, annual OPEB cost and their unfunded actuarial accrued liabilities for past service costs. This will foster improved accountability and a better foundation for informed policy decisions about, for example, the level and types of benefits provided and potential methods of financing those benefits.

The Standard also:

- Results in reporting the estimated cost of the benefits as expense each year *during the years that employees are providing services* to the government and its constituents in exchange for those benefits.
- Provides, to the diverse users of a government’s financial reports, more accurate information about the *total cost of the services* that a government provides to its constituents.
- Clarifies whether the amount a government has paid or contributed for OPEB during the report year has covered its annual OPEB cost. Generally, the more of its annual OPEB cost that a government chooses to defer, the higher will be (a) its unfunded actuarial accrued liability and (b) the cash flow demands on the government and its tax or rate payers in future years.
- Provides better information to report users about a government’s *unfunded actuarial accrued liabilities* (the difference between a government’s total obligation for OPEB and any assets it has set aside for financing the benefits) and changes in the *funded status of the benefits* over time.

4. What are the most common misconceptions about Statement 45?

- a. **That it requires governments to fund OPEB.** Statement 45 establishes standards for *accounting and financial reporting*. How a government actually finances benefits is a policy decision made by government officials. The objective of Statement 45 is to more accurately reflect the financial effects of OPEB transactions, including the amounts paid or contributed by the government, whatever those amounts may be.
- b. **That it requires immediate reporting of a financial-statement liability for the entire unfunded actuarial accrued liability.** Statement 45 does not require immediate recognition of the unfunded actuarial accrued liability (UAAL) as a financial-statement liability. The requirements regarding the reporting of an OPEB liability on the face of the financial statements work as follows:
- Governments may apply Statement 45 prospectively. At the beginning of the year of implementation, nearly all governments will start with zero financial statement liability.
 - From that point forward, a government will accumulate a liability called the *net OPEB obligation*, if and to the extent its actual OPEB contributions are less than its annual OPEB cost, or expense.
 - The net OPEB obligation (not the same as the UAAL) will increase rapidly over time if, for example, a government's OPEB financing policy is pay-asyou-go, and the amounts paid for current premiums are much less than the annual OPEB cost.

Statement 45 does, however, also require the *disclosure* of information about the *funded status* of the plan, including the UAAL, in the notes to the financial statements—and the presentation of multi-year funding progress trend information as a required supplementary schedule.

- c. **That it requires governments to report “future costs” for OPEB.** It is misleading and incorrect to describe accrual accounting for OPEB as requiring the expensing of “future costs.” From an accrual accounting standpoint (the basis of accounting required for all transactions in the government-wide financial statements), the reported expenses relate entirely to transactions (exchanges of employee services for the promised future benefits) that *already have occurred*. Statement 45 requires governments to report costs and obligations incurred as a consequence of receiving employee services, for which benefits are owed in exchange. The *normal cost* component of annual expense is the portion of the present value of estimated total benefits that is attributed to services received in the current year. The annual expense also includes an amortization component representing a portion of the UAAL, which relates to past service costs. Estimated benefit costs associated with *projected future years of service* are *not reported*.

Please return by August 4, 2008 to the Office of the Comptroller, One Ashburton Place, Boston, MA 02108 to the attention of B.J. Trivedi.

GASB 45 Implementation Questions:

We have formulated the following questions to gauge your progress in implementing the GASB statement 45 "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions". The accounting standard has to be implemented effective fiscal year 2008.

Please complete entity information below and answer the questions in order to allow us to understand impact on the Commonwealth's financial report for FY 2008.

Name of Entity: _____

Information completed by: _____ Date: _____

Phone # _____ E-mail: _____

Q: 1 Have you hired an actuary to perform valuation of liability under GASG 45?
Please provide name of the firm performing the valuation.

Q: 2 If answer to question 1 is yes, a) what is the expected date of completing the report?
b) What will be the date of evaluation?

a) _____

b) _____

Following are questions related to actuarial assumptions:

Q: 3 For "no prefunding" scenario the Commonwealth used a discount rate of 4.5 % What percentage is used for your valuation?

Q: 4 What is the health care cost trend rate used in your valuation? (The Commonwealth is using 10.5% trending to an ultimate rate of 5% at ten years for both health care and prescription drugs.)

| Q: 5 What is the actuarial method? (The Commonwealth is using the projected unit credit cost method?)

| Q: 6 What is the valuation date? (The Commonwealth has used January 1, 2006 and is expected to go annually upon implementation.)

Q: 7 What are the administrative expense assumptions? (The Commonwealth assumes a 5% increase annually.)

| Q: 8 What are your morbidity assumptions? (The Commonwealth has increasing trends from 3.3% from 18-49 up to 4.2% from 60 – 64 then decreasing thereafter.)

| Q: 9 What is your amortization period and method? (The Commonwealth is using a 30-year amortization, using a level percentage of payroll, assuming payment increases of 4.5% per year.)

| Q: 10 Which mortality tables are used? (The Commonwealth uses RP 2000, projected forward 10 years with scale AA gender distinct for pre- and post-retirement mortality. Disabled Mortality uses the same table but for 3 years for males.)

| Q: 11 Please forward any other distinct factors on the calculation.

GASB Statement No. 48 – *Sales and Pledges of Future Revenues and Intra-Entity – Transfers of Assets and Future Revenues*

1. Is your entity a recipient of a sale or a pledge of a stream of future revenues that secure your authority's debts from either the Commonwealth or any other entity? If **yes, then disclose the following:**

The Commonwealth has pledged, as security for bonds issued by the (NAME OF AUTHORITY), a portion of the state's XXXX (TYPE OF TAX) that is restricted for (TYPE OF PURPOSE). The bonds, issued by the Authority in 20XX in the amount of \$X.X (million / billion) to provide financing for various (TYPES OF PROJECTS / USES), are payable through 20XX. The Commonwealth has committed to appropriate each year, from the (XXXX TYPE OF TAX), amounts sufficient to cover the principal and interest requirements on the Authority's debt. The Authority has pledged, as the (sole / partial) security for the bonds, the annual appropriations from the Commonwealth. (IF THERE ARE OTHER PLEDGES INSERT HERE). Total principal and interest remaining on the secured debt is \$X.XXX (million / billion) with annual requirements ranging from \$XX.X million in 200X to \$XX.X million in the final year. (XXXX TYPE OF TAX), from which the appropriations will be made, have averaged \$XXX.X million per year over the last XX years (INSERT AS LONG AS THE PLEDGE HAS BEEN EFFECTIVE OR AT LEAST 10 YEARS). For the current year, principal and interest paid by the authority and the (XXXX TYPE OF TAX) revenue recognized by the state were \$XX.X million and \$XXX.X million, respectively.

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2. **Determination if it is a sale or a pledge:**
 - a. A sale occurs if the authority's continuing involvement with those receivables is effectively terminated. Continuing involvement is considered to be effectively terminated if all the following criteria are met:
 - i The transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints imposed by the transferor government, either in the transfer agreement or through other means, for example, organizational or structural restrictions.
 - ii The transferor does not have the option or ability to unilaterally substitute for or reacquire specific accounts from among the receivables transferred. However, the ability or obligation to substitute for defective accounts, at the option of the transferee, would not violate this criterion. For example, accounts that do not possess the characteristics stipulated in a transfer agreement may be replaced with ones that do possess those traits. In addition, insignificant "clean-up" calls (by which the transferor may reacquire the remaining uncollected accounts when the outstanding secured debt reaches a specified minimum balance) would likewise not violate this criterion.
 - iii The sale agreement is not cancelable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights.
 - iv The receivables and the cash resulting from their collection have been isolated from the transferor government.

- b. Isolation occurs when:
- i. The transferee should have legal standing separate from the transferor. Legal separation should be assessed in a manner consistent with the approach for determining whether an organization is a legally separate entity in paragraph 15 of Statement No. 14, The Financial Reporting Entity, as amended.
 - ii. Generally, banking arrangements should eliminate access by the transferor and its component units (other than the transferee) to the cash generated by collecting the receivables. Access is eliminated when payments on individual accounts are made directly to a custodial account maintained for the benefit of the transferee. However, if the transferor continues to service the accounts or if obligors misdirect their payments on transferred accounts to the transferor:
 - (1) The payments to the transferee should be made only from the resources generated by the specific receivables rather than from the transferor's own resources. The transferor should have no obligation to advance amounts to the transferee before it collects equivalent amounts from the underlying accounts.
 - (2) Cash collected by the transferor on behalf of the transferee should be remitted to the transferee without significant delay. In addition, earnings on invested collections should be passed on to the transferee.
 - (3) The transferor should consider proceeds received from the transferee as satisfaction of individual accounts. The transferor should indicate in its records which accounts have been transferred and which collections pertain to those accounts. For example, in a transaction involving delinquent taxes, the proceeds from the transferee should be accepted by the taxing body as satisfaction of the delinquent taxes owed by the individual property owners. Accordingly, the tax rolls should indicate that those taxes have been paid (or sold, or otherwise settled) and are no longer delinquent.
 - iii. Provisions in the transfer agreement (or provided elsewhere in statutes, charters, or other governing documents or agreements) should protect the transferee from the claims of the transferor's creditors.

Accounting for Transactions That Do Not Qualify as Sales

If the criteria required for sale reporting in are not met, a transaction should be reported as a collateralized borrowing as follows:

- The receivables or future revenues should be considered for financial statement purposes as pledged rather than sold.
- Proceeds received by the pledging authority should be reported as a liability in its statements of net assets and as an other financing source in its governmental funds statement of revenues, expenditures, and changes in fund balance, if governmental funds receive the proceeds.

- Similarly, a transferee government should recognize a receivable for the amounts paid to the pledging government.
- Pledged receivables should continue to be recognized as assets in the pledging government's balance sheet or statements of net assets.
- Pledged revenues should continue to be reported as revenue by the pledging government in accordance with recognition and measurement criteria appropriate to the specific type of revenue pledged.
- Collections of the pledged revenues or receivables that are subsequently paid to the transferee reduce the liability in the pledging government's statements of net assets. Those payments also should be reported as expenditures, rather than reductions of revenue, in the pledging government's governmental funds statement of revenues, expenditures, and changes in fund balance, if governmental funds are used to report the transaction.
- Payments received from the pledging government reduce the governmental transferee's receivable.
- Pledged receivables collected and paid to the transferee after the liability has been liquidated should be reported as expenditures/expenses (by the pledging government) and revenues (by the governmental transferee) when the pledging government becomes obligated to make the payments.

Accounting for Transactions That Meet the Criteria to Be Reported as Sales

If the criteria for sale reporting are met, a transaction should be reported as a sale. In a sale of receivables:

- The transferor government should no longer recognize as assets the receivables sold, removing the individual accounts at their carrying values.
- Except for reporting in governmental funds, the difference between the proceeds (exclusive of amounts that may be refundable) and the carrying value of the receivables sold should be recognized as a gain or loss in the period of the sale.
- In governmental funds, the difference between the proceeds received and the receivables sold (net of allowances and deferred revenues) should be recognized as revenue. If the transferee is a government outside of the transferor government's financial reporting entity, the transferee government should recognize the receivables acquired at the purchase price. Recognition by transferees that are both component units of the Commonwealth (e.g. the MBTA to the Turnpike Authority – see below):

In a sale of future revenues, the transferor government should:

- Report the proceeds as deferred revenue or revenue, in both the government-wide and fund financial statements.
- Generally, revenue should be deferred and recognized over the duration of the sale agreement; however, there may be instances wherein recognition in the period of the sale is appropriate.
- For transactions with parties outside the financial reporting entity, deferral is required if the future revenue sold was not recognized previously because the event that would have resulted in revenue recognition had not yet occurred
- Revenue should be recognized at the time of the sale only if the revenue sold was not recognized previously because of uncertainty of realization or the inability to reliably measure the revenue. If the transferee is a government outside of the transferor

government's financial reporting entity, the transferee government should recognize the acquisition at cost and amortize the balance over the life of the transfer agreement.

- The transferee government, as owner of the future revenues, should recognize receivables and revenue when the recognition criteria appropriate to the specific type of revenue acquired are met.

Intra-Entity Transfers of Assets and Future Revenues

When accounting for the transfer of capital and financial assets and future revenues within the same financial reporting entity: The transferee should recognize the assets or future revenues received at the carrying value of the transferor.

Statement of Net Assets
NAME OF ENTITY
June 30, 2008
(Amounts in thousands)

Supporting Schedule Number	Assets	2008	2007
	Current assets:		
1	Cash and cash equivalents/restricted.....	\$ -	\$ -
1	Short-term investments.....	-	-
	Assets held in trust.....	-	-
	Receivables, net of allowance for uncollectibles:.....		
	Federal grants and reimbursement receivable.....	-	-
	Loans.....	-	-
	Other receivables.....	-	-
2	Due from cities and towns.....	-	-
2	Due from primary government.....	-	-
	Inventory.....	-	-
	Other current assets.....	-	-
	Total current assets.....	-	-
	Noncurrent assets:		
1	Cash and cash equivalents - restricted.....	-	-
1	Long-Term investments.....	-	-
1	Restricted investments.....	-	-
	Accounts receivables, net.....	-	-
	Loans receivables, net.....	-	-
2	Due from primary government.....	-	-
	Capital assets not being depreciated.....	-	-
	Capital assets being depreciated, net.....	-	-
	Other noncurrent assets.....	-	-
	Total noncurrent assets.....	-	-
	Total assets.....	\$ -	\$ -
	LIABILITIES		
	Current liabilities:		
5	Accounts payable and other liabilities.....	\$ -	\$ -
5	Accrued payroll.....	-	-
5	Compensated absences.....	-	-
5	Accrued interest payable.....	-	-
2, 5	Due to primary government.....	-	-
5	Due to federal government.....	-	-
5	Deferred revenue.....	-	-
5	Capital leases.....	-	-
5	Bonds, notes payable and other obligations - current.....	-	-
	Total current liabilities.....	-	-
	Noncurrent liabilities:		
5	Compensated absences.....	-	-
5	Accrued interest payable.....	-	-
5	Due to primary government.....	-	-
5	Deferred revenue.....	-	-
5	Capital leases.....	-	-
5	Bonds, notes payable and other obligations.....	-	-
5	Other noncurrent liabilities.....	-	-
	Total noncurrent liabilities.....	-	-
	Total liabilities.....	-	-
	NET ASSETS		
	Invested in capital assets, net of related debt.....	-	-
	Restricted for:		
	Debt Service.....	-	-
	Capital projects.....	-	-
	Other purposes.....	-	-
	Unrestricted.....	-	-
	Total net assets.....	\$ -	\$ -
	Check Total	-	-

Statement of Revenues, Expenses and Changes in Net Assets**NAME OF ENTITY**

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	2008	2007
Operating revenues and expenses:		
Operating revenues:		
Charges for services.....	\$ -	\$ -
Other.....	-	-
Total Operating Revenues.....	-	-
Operating expenses:		
Cost of services	-	-
Administration costs.....	-	-
Depreciation.....	-	-
Total Operating Expenses.....	-	-
Operating Income (loss).....	-	-
Nonoperating revenues (expenses):		
Operating grants.....	-	-
Interest income.....	-	-
Interest expense.....	-	-
Other nonoperating revenue (expense).....	-	-
Nonoperating Revenues (expenses), net.....	-	-
Income (loss) before contributions and operating transfer.....	-	-
Capital contributions.....	-	-
Gain / (Loss) on disposal of capital assets.....	-	-
Change in Net Assets.....	-	-
Net Assets - Beginning of Year.....	-	-
Net Assets - End of Year.....	\$ -	\$ -
Check Total	-	-

Component Unit Name :

SUPPORTING SCHEDULE #1 - Cash and Investments with Disclosures

The purpose of this schedule is for each component unit to provide the Comptroller's Office with the GASB #3 required disclosures related to cash and investments in the format used by the Commonwealth.

Cash and cash equivalents

	(in thousands)
Carrying amount of cash and cash equivalents	\$ -
Cash and cash equivalents as reported on the balance sheet	\$ -
Bank deposits insured by the Federal Deposit Insurance Corporation	-
Bank deposits insured by _____	-
Bank deposits collateralized	-
Bank deposits uninsured and uncollateralized	-
Total bank deposits at June 30, 2008	\$ -

Investment Type	Investment Maturities (in years)					Range of Credit Ratings
	Fair Value	Less Than 1	1 - 3 Years	4 - 8 Years	Over 8 Years	
Guaranteed investment contracts.....	\$ -	\$ -	\$ -	\$ -	\$ -	-
Repurchase agreements.....	-	-	-	-	-	-
Various federal obligations.....	-	-	-	-	-	-
Corporate bonds.....	-	-	-	-	-	-
Asset backed securities.....	-	-	-	-	-	-
Auction rate securities.....	-	-	-	-	-	-
Total Fixed Income Investments.....		\$ -	\$ -	\$ -	\$ -	
<u>Other Investments</u>						
Equities.....	-					
MMDT.....	-					
Short - term investment funds.....	-					
Money market mutual funds.....	-					
Real estate.....	-					
Total Investments	\$0					

Component Unit Name :

SUPPORTING SCHEDULE #2 - Due from Commonwealth Analysis

The Commonwealth provides many forms of assistance to its component units to support their operations. At times this assistance will generate a receivable/payable between the Commonwealth and the component unit. It is necessary for the Comptroller's Office to know the exact detail supporting the receivable on the component unit's financial statement as corresponding entries have to be made to the Commonwealth's financial statements. Therefore, we are requesting each component unit provide detailed documentation supporting any amounts reported as Due From Commonwealth on the conversion balance sheet.

Please provide the following information for each type of assistance which comprises the balance at year end:

Brief description of the type of assistance:

Commonwealth department providing support:

Detail on subsequent payment of receivable and amounts remaining unpaid:

<i>Date</i>	<i>Commonwealth *</i>		<i>Commonwealth *</i>			
<i>Received</i>	<i>Appropriation</i>		<i>Commonwealth *</i>	<i>Department</i>	<i>Appropriation</i>	<i>Fiscal year of</i>
<i>Account Number</i>	<i>Fund Number</i>		<i>Name</i>	<i>Number</i>	<i>Appropriation</i>	<i>Amount</i>
00/00/2008						\$ -
00/00/2008						-
00/00/2008						-
00/00/2008						-
00/00/2008						-
Subtotal of amount received subsequent to year end						-
Open A/R						-
Open A/R						-
Open A/R						-
Subtotal of amount still outstanding at _____						-
Total of amount due from the Commonwealth						\$ -
Less Current portion:						
Due from cities and towns (if applicable)						-
Due from the Commonwealth						-
Due from the Commonwealth - noncurrent						\$ -

*You may need assistance from the department liaison to identify the appropriation account and its related fiscal year but this is the most important information needed by the Comptroller's Office. You need to identify the Open A/R by appropriation also.

NOTE: The total of this schedule must equal the amount reported as "Due from the Commonwealth" on the balance sheet completed as part of this package.

Component Unit Name :

SUPPORTING SCHEDULE #2 - Due from Commonwealth Analysis (continued)

The following table summarizes deemed principal and interest of contract assistance (amounts in thousands):

Fiscal Year <u>Ended June 30,</u>	Appropriation If <u>Known</u>	Deemed Principal <u>Subsidy</u>	Deemed Interest <u>Subsidy</u>	Total Contract <u>Assistance</u>
2009.....	\$	-	\$ -	\$ -
2010.....		-	-	-
2011.....		-	-	-
2012.....		-	-	-
2013.....		-	-	-
2014-2018.....		-	-	-
2019-2023.....		-	-	-
2024-2028.....		-	-	-
2029-2033.....		-	-	-
2034-2038.....		-	-	-
2039-2043.....		-	-	-
		<hr/>	<hr/>	<hr/>
Total		\$ -	\$ -	\$ -

NOTE: Contract assistant subsidy principal first, all remaining is deemed interest. Please verify with your bond counsel.

SUPPORTING SCHEDULE #3 - Detailed Schedule of Commonwealth Support

Please provide the following information for each separate appropriation account comprising both the "Transfer from Commonwealth" or "Capital Contribution from the Commonwealth" reported in your financial statements:

Commonwealth department liaison and telephone number:

[illegible]

*You may need assistance from the department liaison to identify the appropriation account and its related fiscal year but this is the most important information needed by the Comptroller's Office. You need to identify the Open A/R by appropriation also.

Component Unit Name :

SUPPORTING SCHEDULE #4 - Disclosure Schedule for Advance Refundings Resulting in Defeasance of Debt

The Commonwealth complies with the disclosure requirements detailed in GASB #7 - Advance Refundings Resulting in Defeasance of Debt. Paragraphs 11, 12 and 14 of this statement provides disclosure guidance. If your footnotes contain the required disclosures please reference the pages on the financial statements where the information can be found. If not please complete the schedule below (see GASB #7 for illustrative examples of disclosure calculations).

Financial Statement Page Reference

Disclosure Schedule

GASB #7 Paragraph 11

- (a) Please provide the difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding

Amount \$

- (b) Please provide the economic gain or loss resulting from the transaction

Amount \$

GASB #7 Paragraph 12

Please provide the effective interest rate that, when used to discount the debt service requirements on the new debt, produces a present value equal to the proceeds of the new debt net of any premiums or discount and any underwriting spread and issuance costs that are not recoverable through escrow earnings.

Effective interest rate %

GASB #7 Paragraph 14

For all periods following an advance refunding for which debt defeased in substance remains outstanding, the amount of the old debt, if any, outstanding at year end must be disclosed.

Outstanding in substance defeased debt at June 30, 2008

\$0

Component Unit Name :

SUPPORTING SCHEDULE #5 - Short-term and Long-term Debt Schedules

Short-term borrowings

The following table summarizes short-term financing and credit activity for fiscal 2008 (amounts in thousands)

<i>Discretely Presented Component Units</i>	July 1, 2007			June 30, 2008	
	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Credit <u>Limit</u>
Component units:					
Revolving lines of credit	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue anticipation notes	-	-	-	-	-
Other	-	-	-	-	-
Total short-term debt.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Amounts are included as part of current bonds, notes payable and other obligations within the Statement of Net Assets.

Component Unit Name :

SUPPORTING SCHEDULE #5 - Short-term and Long-term Debt Schedules (continued)

Long-term Debt

The Commonwealth will report long-term debt outstanding net of unamortized discount and net of unamortized deferred loss on refunding for its Component Units. The footnotes will disclose the type of debt, interest rates, maturities of principal for each of the next five years and thereafter and a schedule of changes in debt. If this information is provided in the footnotes to your financial statements please provide the appropriate reference. In the event these items are not disclosed please complete the following schedules.

Bonds and notes outstanding at June 30, 2008, net of unamortized discount and deferred loss or gain on refunding, are as follows (amounts in thousands):

<i>Purpose</i>	<u>Interest Rates</u>	<u>Maturity Date</u>	July 1, 2007 <u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	June 30, 2008 <u>Ending Balance</u>	Due Within <u>One Year</u>
Accrued Liabilities:							
XXXX			\$ -	\$ -	\$ -	\$ -	\$ -
XXXX			-	-	-	-	-
XXXX			-	-	-	-	-
Total Accrued liabilities			-	-	-	-	-
Long - term debt:							
XXXX			-	-	-	-	-
XXXX			-	-	-	-	-
XXXX			-	-	-	-	-
Unamortized (Premiums) / Discounts:							
XXXX			-	-	-	-	-
XXXX			-	-	-	-	-
XXXX			-	-	-	-	-
Total long - term debt			-	-	-	-	-
Other long - term liabilities			-	-	-	-	-
Total Long Term liabilities			\$ -	\$ -	\$ -	\$ -	\$ -

Maturities of Principal and Interest (amounts in thousands):

Fiscal Year <u>Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	-	-	-
2010.....	-	-	-
2011.....	-	-	-
2012.....	-	-	-
2013.....	-	-	-
2014-2018.....	-	-	-
2019-2023.....	-	-	-
2024-2028.....	-	-	-
2029-2033.....	-	-	-
2034-2038.....	-	-	-
2039-2043.....	-	-	-
Total.....	-	-	-
Less current portion.....	-	-	-
Total long-term debt.....	\$ -	\$ -	\$ -

Component Unit Name :

SUPPORTING SCHEDULE #5 - Short-term and Long-term Debt Schedules (continued)

Certificates of Participation (page reference if applicable)

Please provide a brief description and interest rates:

The certificates mature as follows:

Fiscal Year <u>Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	-	-	-
2010.....	-	-	-
2011.....	-	-	-
2012.....	-	-	-
2013.....	-	-	-
2014-2018.....	-	-	-
2019-2023.....	-	-	-
2024-2028.....	-	-	-
2029-2033.....	-	-	-
2034-2038.....	-	-	-
2039-2043.....	-	-	-
Total.....	-	-	-
Less current portion.....	-	-	-
Net.....	\$ -	\$ -	\$ -

Component Unit Name :

SUPPORTING SCHEDULE #6 - Swap Agreements, Swaptions, Hedges, etc

Does your entity have any Swap or Hedging activity? If yes, please make sure that your footnote to the financial statements provide full detail of these activities. See example attached.

Interest Rate Swap Agreements –

The (NAME OF ENTITY) has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps) in order to lower its cost of capital, protect against rising interest rates, lock in rate savings and to realize refinancing savings according to schedules that suit the Component Units' needs. When the Component Unit has entered into Swaps, it has done so in order to: (1) provide lower costs fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long – term fixed rate returns on invested assets in its required reserve funds; and (3) create synthetic refinancing with cash flow savings realized as the Component Unit designates.

Summary of Swap Transactions by Category – Synthetic Fixed Rate Swap Transactions

From FYXX through FYXX, the XXX executed swap agreements associated with particular series' of bonds. On one of the agreements, the XXXX will receive a \$X,XXX,000 payment from the counterparty, due in FY08. the total notional amounts are approximately \$XXX million, with termination dates ranging from 20XX to 20XX. Fixed payable swap rates are X.XX% to X.XX% with variable receivable swap rates ranging from XX% of LIBOR, BMA and CPI + XX to XXX basis points. Counterparty ratings range from XX to XXX/XXX. The aggregated fair value appreciation / (depreciation) as of June 30, 2008 was (\$XX,XXX.)

Swap Payments and Associated Debt

As of June 30, 2008, debt service requirements on the various bond issuances of the XXXX that have swap payments applied to them were calculated by applying fixed rates ranging from X.XX% to X.X% and assuming the XX% of the Libor rate was X.XX%, variable rate of X.XX%, using BMA and X.XX% plus XX to XXX basis points for the CPI – based bonds. Debt service related to these swaps is as follows (amounts in thousands):

Fiscal Year	Variable - Rate Bonds		Interest Rate Swap,	
	Principal	Interest	Net	Total
2009	\$ -	\$ -	\$ -	\$ -
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014 - 2018	-	-	-	-
2019 - 2023	-	-	-	-
2024 - 2028	-	-	-	-
2029 - 2033	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -

Component Unit Name :

SUPPORTING SCHEDULE #6 - Swap Agreements, Swaptions, Hedges, etc (Continued)

Swaptions for Forward Refundings

In addition, the (NAME OF ENTITY) has three swaptions generally exercisable from XXXXX through XXXXX on its variable rate general transportation system bonds. The swaptions are summarized as follows:

<u>Date of Execution</u>	<u>Notional Amount</u>	<u>Lump - Sum Payment From Counterparty</u>	<u>Counterparty Option Exercise Dates</u>	<u>Term of Swap</u>	<u>Associated Bonds</u>	<u>Fixed Payable Swap Rate</u>	<u>Variable Receivable Swap Rate</u>	<u>Counterparty Credit Rating as of June 30, 2008</u>	<u>Fair Value at June 30, 2008</u>
MONTH, YEAR	\$ -	-	Each MONTH and September from YEAR through and including YEAR	YEAR	XXX Bonds, YEAR Series X maturing YEAR and YEAR	X.XXX%		XXX/XXX	<u>\$ -</u>

Forward starting swaps:

MONTH, YEAR	\$ -	-	Forward swap, effective commencing MONTH, DAY, YEAR through MONTH DAY, YEAR	YEAR	XXXX Series X .	X.XXX%		XXX/XXX	\$ -
MONTH, YEAR	\$ -	-	Forward swap, effective commencing MONTH, DAY, YEAR through MONTH DAY, YEAR	YEAR	XXX Bonds YEAR Series X maturing YEAR, and term YEAR	X.XXX%		XXX/XXX	<u>-</u>
									<u>\$ -</u>

Asset-Side Swaption for Reserve Investment

<u>Date of Execution</u>	<u>Notional Amount</u>	<u>Lump - Sum Payment From Counterparty</u>	<u>Counterparty Option Exercise Dates</u>	<u>Term of Swap</u>	<u>Associated Bonds</u>	<u>Fixed Payable Swap Rate</u>	<u>Variable Receivable Swap Rate</u>	<u>Counterparty Credit Rating as of June 30, 2008</u>	<u>Fair Value at June 30, 2008</u>
MONTH, YEAR	\$ -	-	MONTH DAY and MONTH, DAY from MONTH YEAR through MONTH YEAR	YEAR		X.XXX%		XXX/XXX	\$ -

Component Unit Name :

SUPPORTING SCHEDULE #6 - Swap Agreements, Swaptions, Hedges, etc (Continued)

Fuel Hedges

The (NAME OF ENTITY) has XXX hedges outstanding as of June 30, 2008 that terminate on MONTH DAY, YEAR. The aggregate notional amount is X,XXX,XXX gallons with prices from \$X.XX - \$X.XXX per gallon. Counterparty ratings were XXX / XX. Trade dates were X/X/XX and X/XX/XX. Prices are sourced at Nymex Heating Oil first nearby.

Credit Risk

Because all of the (NAME OF ENTITY'S) swaps rely upon the performance of third parties who serve as swap counterparties, both are exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps. All fair values have been calculated using the Mark to Market or Par Value Method. To mitigate credit risk, the (NAME OF ENTITY) maintains strict credit standards for swap counterparties. For the (NAME OF ENTITY), all swap counterparties for both Moody's and Standard & Poors rate longer-term swaps are in the "AA" category. To further mitigate credit risk, the MBTA's swap documents require counterparties to post collateral for the (NAME OF ENTITY's) benefit if they are

Basis Risk

The (NAME OF ENTITY) is exposed to basis risk if the relationship between the floating index the (NAME OF ENTITY) receives on the swaps (BMA, CPI plus XX basis points, or XX% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized.

Termination Risk

The (NAME OF ENTITY's) swap agreements do not contain any out of the ordinary events that would expose them to significant termination risk. In keeping with market standards, all parties may terminate each swap if the other party fails to perform under the terms of the contract. In addition the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The (NAME OF ENTITY) views such events to be remote. If at the time of the termination a swap has a negative value, the (NAME OF ENTITY) would be liable to the counterparty for a payment equal to the fair value of each swap.

Rollover Risk

The (NAME OF ENTITY's) variable rate bonds are exposed to rollover risk because the swap for the bonds terminates prior to maturity of the bonds. Upon termination of the swap, the (NAME OF ENTITY) will no longer realize the synthetic rate on the bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

Market Access Risk and Potential Basis Risk

In the case of the swaptions, if any option is exercised and refunding bonds are not issued, the bonds expected to be refunded would not be refunded and the (NAME OF ENTITY) would make net swap payments as required by the terms of each contract. If any of the options are exercised, the actual savings ultimately recognized by the transactions will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.